WELFARE/INCOME SUPPORT

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CHILD SUPPORT ENFORCEMENT INITIATIVES

Background

The President's budget proposes two new initiatives to increase the amount of child support payments that custodial parents receive. The first proposal expands a policy enacted in the 1996 welfare reform law that allows States to adopt simplified rules governing the treatment of child support payments made to families who have left welfare. The policy would result in all child support collections made on behalf of former welfare families being paid to the family, rather than having the government collect a portion of these payments in reimbursement for past welfare benefits paid to those families. This would result in a Federal cost of $396 million over 5 years. The second policy would provide Federal matching funds for child support that States distribute to families currently on welfare without reducing their welfare benefits. This policy would result in an additional $97 million in Federal spending over the next 5 years.

Key Points

< Child support collections have more than doubled since 1992, from $8 billion to $15.5 billion.

< Much of this increase resulted from provisions of the 1996 welfare reform law that required paternity establishment for children born to welfare mothers. The law also increased sanctions against parents delinquent in paying child support to welfare families and increased state resources for combating evasion of child support orders in such cases.

< Under current law, States will already receive more than $3 billion in Federal funding for child support enforcement in fiscal year 2001. This funding underwrites two-thirds of the States' administrative costs for running a child support system that tracks down persons delinquent in paying child support and obtains collections on behalf of custodial parents.

< The effect of the first proposal will be to reduce the amount of welfare costs states and the federal government collect from non-custodial parents through child support payments, and instead transmit those funds to the custodial parent who was once on welfare.

< The second proposal to provide a new Federal match to child support payments is supposed to encourage states not to reduce welfare benefits by the full amount they collect in child support payments for their current welfare recipients who also collect child support.

CHILD SUPPORT GRANTS

Background

The President is proposing a new grant program to subsidize and control State child support enforcement efforts. A sum of $125 million would be provided in fiscal year 2001 to “help approximately 40,000 low-income noncustodial parents (mainly fathers) work, pay child support, and reconnect with their children.” To get the subsidy, States would be required to “put procedures in place allowing them to require more parents who owe child support to pay or go to work,” expanding the traditional Federal involvement and interest to more than parents of children on welfare. Thus, as a condition of receiving grant funds, States may be required to enact indirect Federal sanctions against persons delinquent on child support payments such as booting their cars, and the like.

Key Points

< The administration itself admits that these new grants will “build on over $350 million in responsible fatherhood initiatives” already funded by the Labor Department’s welfare-to-work grants.

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< Although new sanctions against deadbeat parents may be in order, it is unnecessary to “bribe” States into enacting them through creation of a new grant program.

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< It is unlikely that an additional $125 million in grant funds under this proposal will add significantly to the current level of child support collections.

NEW WELFARE GRANT PROGRAM

Background

The President is proposing creation of a new welfare spending program to give States grants "to help hard pressed working families get the support and skills they need to succeed on the job and avoid welfare." States could divide $130 million in new grants in fiscal year 2001. The administration says the funds "will leverage existing resources to help families retain jobs and upgrade skills, and get connected to critical work supports, such as child care, child support, health care, food stamps, housing, and transportation." The grants will "help approximately 40,000 low-income families," according to the administration.

Key Points

< Under current law, States already divide $17 billion annually in Temporary Assistance to Needy Families [TANF] block grant funding.

- As of 30 September 1999, States had unspent balances of more than $10 billion in their TANF block grant accounts, while welfare caseloads have fallen 44 percent since 1996.

- Hence, there is not the demonstrated need for an additional $130 million in grant funds to combat welfare dependency.

< The President's proposal appears to be motivated by the perceived "crisis" of falling welfare, food stamp, Medicaid, and other income support program caseloads.

- With the strong economy and new welfare law, which encourages work rather than dependency, millions of recipients have left public benefit rolls for private sector jobs. Often, leaving welfare has been accompanied by leaving the food stamp and Medicaid programs as well, even though recipients may still be eligible for benefits in these programs.

- The proposed grant funds will be used to persuade former welfare recipients to reapply for food stamp or Medicaid benefits, even though those families may now be striving to support themselves without reliance on public benefit programs.

< There is nothing this grant program would fund that States cannot already do with the resources that are currently available to them through TANF and welfare-to-work grants. The proposal simply throws more money into a welfare system whose caseloads are declining rapidly already.

SSI FOR NONCITIZENS

Background

The 1996 welfare reform law sought to encourage personal responsibility among immigrants coming to the United States after the enactment of the law by limiting their eligibility for welfare benefits. The law, as amended, allows noncitizens to obtain SSI, Food Stamps, and Medicaid after they have worked and paid Social Security taxes in the U.S. for at least 10 years, or upon becoming naturalized U.S. citizens. The President is proposing to permit noncitizens who entered the U.S. after enactment of welfare reform and who have resided in the U.S. for at least 5 years to qualify for SSI disability benefits in the event that they become disabled. The proposal costs $707 million over 5 years.

Key Points

< Most noncitizens who entered the United States after enactment of welfare reform have legally-enforceable sponsorship agreements signed by the legal residents. These sponsors have promised to provide for the immigrants if they are unable to support themselves. The President would weaken the welfare reform law’s effort to hold immigrants or their sponsors accountable for the promises they have made to be self-sufficient.

< The proposal guts the welfare reform law’s effort to discourage welfare-based immigration.

< Under the proposal, someone who has never worked and paid any income taxes in the United States could qualify for a lifetime of cash benefits, and then qualify for a lifetime of free medical care, even though they entered the U.S. with the understanding that they were responsible for supporting themselves and would not qualify for benefits.

< Working and paying taxes in the United States for at least 10 years or naturalization are not unreasonable thresholds for obtaining eligibility for a lifetime cash income and free medical care.

THE EARNED INCOME CREDIT [EIC]

Background

In his State of the Union Address, the President is expected to call for a significant expansion of the Earned Income Tax Credit [EIC]. The proposal is estimated to increase the cost of this tax subsidy by $2 billion annually. This increase follows on the President's 1993 expansion of the credit, which was the largest ever, helping to nearly double the cost of the program in only 7 years, to $30 billion in fiscal year 2000.

Specifically, the President is expected to recommend four major changes to the current EIC: 1) expanding, by $500, the maximum credit/payment for filers with three or more children, bringing it to almost $4,500 regardless of taxes actually paid; 2) reducing the phaseout rate for filers with at least two children from 21 percent to 19 percent, thereby allowing filers with even higher incomes to receive the credit; 3) increasing the maximum income married couples may earn before the credit is phased out, also allowing higher income filers to now receive the credit; and, 4) exempting contributions to IRAs or 401(k) plans from income for purposes of calculating the EIC.

Key Points

< It is welcome news that the White House supports tax relief for some families. But the EIC proposals help a small minority of America's working families. Only 16 percent of American families qualify for the EIC. Meanwhile, the remaining 84 percent of America's working families will receive no tax relief from this proposal.

< The Republican tax cut of 1997 provided dramatic tax benefits to lower income working families. The President's new EIC proposal has the overall effect of increasing the tax credit/income subsidy by as much as $1,150 to some of these same filers – while the vast majority of working families will receive no tax relief under the President's budget proposals.

< Rather than dipping into the surplus to fund these expansions of the EIC, the President should pay for them by simultaneously proposing reforms within the EIC to combat the current massive levels of fraud in the program. The program is rife with waste, with an estimated 21 percent of all credits claimed fraudulently. This translates to $5 billion to $8 billion every year in overpayments. (See examples below.)

< More than 86 percent of EIC benefits come in the form of direct cash payments to recipients in excess of tax payments made. Only 14 percent of EIC costs represent actual refunds of income taxes. Thus, the EIC is much more a government income subsidy than a reduction in income tax liability for most filers who qualify. Therefore, the government has reached the limits of providing a work incentive through the Earned Income Credit, and now risks turning it into a welfare program through which wealth is not created but merely redistributed.

< Reducing the income phaseout rates further perverts this program from its original goal of targeting help to the working poor. For the first time, some filers with incomes as high as $38,000 will qualify for the credit.

< The President's proposal would increase the benefits for married couples above the current phaseout rate regardless of whether they are disadvantaged by reason of their marriage under the EIC program.

< Exempting retirement savings from the EIC makes the program another Federal subsidization of retirement benefits – by replacing earned income with EIC income.

< Although the President makes these proposals in the name of increased incentives for lower income working families, they will actually make the tax code even more complicated for them, while at the same time imposing higher marginal tax rates on some of these same beneficiaries.

- The U.S. Taxpayer Advocate has said that the administration of the EIC is the third most serious problem facing taxpayers because of the complexity of the credit.

- The families on whom the EIC is targeted will face higher marginal tax rates than any other Americans. For instance, a family earning $32,000 (with three children) will have to pay 34 percent of each additional dollar of earnings in income taxes. Combined with the effect of the payroll tax, Federal marginal tax rates for this family reach more than 41 percent. This is because the EIC credit is being phased out to zero at the same time the marginal income tax rate is climbing. Therefore, combined with State and local taxes, this could actually become a work disincentive, with a person keeping only about half of each additional dollar earned.

Waste, Fraud, Abuse, and Mismanagement

< An IRS audit of returns claiming the EIC for tax year 1994 found $4.4 billion in overpayments. A followup study by the IRS determined that, even after implementing compliance reforms designed to combat fraud, the error rate was still 21 percent of all EIC claims filed.

< The General Accounting Office [GAO] has noted: "[The EIC] has historically been vulnerable to high rates of invalid claims. During . . . 1998, of the 290,000 EIC tax returns with indications of errors or irregularities that IRS examiners reviewed, $448 million (68 percent of the $662 million claimed) was found to be invalid . . ."

< The Treasury Department Inspector General recently wrote: "The integrity of Earned Income Tax Credit payments has been a matter of concern to the IRS . . . for many years.

Massive EIC scams have been identified . . . A draft IRS management study showed [an] EIC overpayment rate [of between] 32 percent to 34 percent, which translates into inappropriate payments in excess of $8 billion per year.”

< Seven inmates at the District of Columbia’s Lorton Prison obtained EIC payments of $722 each by filing phony tax returns claiming income earned from jobs such as “barber” and “coal miner” when, in fact, they had been incarcerated the entire year and had no earned income.

< A Phoenix, AZ IRS examiner detected a scheme to defraud the EIC in the border town of San Luis. Although the town has only 3,500 residents, more than 13,500 tax returns were filed in 1994 claiming the town as the filer’s residence. Of those, 10,000 claimed refunds under the EIC. According to the IRS examiner: “Most of the people filing tax returns there did not qualify for the credit” since they did not even live in the U. S. They were citizens of Mexico who crossed the border to defraud the program.

WELFARE-TO-WORK GRANT PROGRAM EXTENSION

Background

As part of the 1996 welfare reform law, the Republican Congress provides $17 billion annually to the States in mandatory welfare block grants by formula. In addition to this Temporary Assistance to Needy Families [TANF], the Balanced Budget Act of 1997 provided an additional $3 billion in fiscal years 1997 and 1998 to try to move welfare recipients into the workforce. About half of this funding was also provided by formula to States and local communities; the remainder is distributed by the Department of Labor through competitive grants directly to implementing entities.

These welfare-to-work funds are temporary, with States’ and other recipients’ authority to spend the money terminating in 2001 and 2002. The President is now proposing to extend, through 2004, the period during which the money may be spent. This will probably result in spending above the baseline of another $100 million to $200 million – for a program would have otherwise expired.

Key Points

< As of 31 December 1999, only $391 million of the total $3 billion in welfare-to-work grants authorized in 1997 and 1998 had been spent. This represents barely 10 percent of the total grant funds 3 years into their availability.

< States already can fund welfare-to-work efforts with their unspent TANF funds, such as targeting noncustodial parents of children on welfare for job training and placement.

- In fact, States have amassed $10 billion in unspent welfare block grant money under TANF. The Congressional Budget Office [CBO] estimates the unspent balance will grow to $14 billion by 2003.

- Five States actually refused to take the separate welfare-to-work grants because of the bureaucratic red tape involved in obtaining the funds, and the restrictions on how the funds could be spent.

- Since States began reforming their welfare programs under waivers of Federal law in the early 1990s, welfare caseloads have steadily declined, and the decline accelerated after enactment of the 1996 welfare reform law. Caseloads have fallen 52 percent since 1994, and 44 percent since the enactment of the welfare reform law in 1996.

    - The total number of Americans on welfare has fallen from 14.3 million in 1994 to 6.8 million in 1999. This is the lowest level of welfare recipients in 30 years.

    - In 1998, more than 1.3 million welfare recipients entered the workforce.

    - The Nation's unemployment rate of 4.1 percent is the lowest since 1970. Many communities are facing labor shortages which make hiring persons on welfare very attractive.

- As of August 1998, States had an average of 25 percent more dollars per family on the welfare rolls than they did under the old AFDC program.

Waste, Fraud, Abuse, and Mismanagement

- **Little Response, Few Job Placements** – The District of Columbia awarded eight contracts, totaling up to $52 million, to companies who said they could move 13,000 district residents off the welfare rolls and into employment. After 9 months, however, few of these recipients were placed in jobs. Contractors said half of the recipients they contacted failed to show up for orientation or training. Repeated letters to clients got no responses, according to one contractor, and recipients refused to answer the door when employees of the contractor visited their homes. The frustrated contractor then sent no-show recipients invitations to a barbecue; roughly half of the 120 targeted no-shows appeared.

  Two contractors who talked to journalists admitted that their success rates at placing recipients in jobs were 12 percent and 22 percent respectively. Said one of the contractors: "I suspect that some (recipients) are already employed, but don't want that known." (*The Washington Post*, 11 August 1999.)

< **Welfare-to-Work Contract Given to Incompetent Crony –** The District of Columbia awarded a $6.6-million contract to a company with no experience in the field of job placement – but was owned by a personal friend of the city official awarding the contracts. It was the second largest of the eight contracts awarded, despite the company's track record of ineptitude in mismanaging group homes for the mentally retarded, which was its primary activity.

The contract called for the company to find jobs for 1,500 welfare recipients. But after spending $1 million in Federal grant money over 9 months, the company had placed only 30 recipients in jobs. Moreover, of the few recipients placed in jobs, some were actually hired by the contractor's other company to work in the group homes - regardless of whether that was in the best interests of the homes or the welfare recipients. The contractor then claimed Federal tax credits for hiring the same welfare recipients at his other company which his contract was paying him to place through the welfare-to-work grant. The contractor defended this double-dipping, saying: "If I have more than one company that can utilize government benefits in more than one way, then that's the American way." (*The Washington Post*, 11 August 1999.)

FOOD STAMP INCREASES

Background

The President's budget proposes several policy initiatives that will expand food stamp eligibility and benefit levels. Among these are allowing noncitizens who were residing in the Unites States upon enactment of the welfare reform law of 1996 to obtain food stamp benefits when they attain age 65, or if they live in a household where children currently are eligible for benefits. These two policies would increase food stamp spending by $565 million over 5 years. The President is also proposing to allow States to apply a higher allowance for vehicles owned by food stamp recipients than under current law. This would result in increasing food stamp benefits by $661 million over 5 years. The third proposal conforms the definition of income within the food stamp and medicaid programs, resulting in payment of an additional $25 million in food stamp benefits over 5 years.

Key Points

< The 1996 welfare reform law sought to eliminate the availability of welfare benefits as a magnet to immigration. While some of the restrictions on non-citizens who entered the U.S. prior to August 22, 1996 have been lifted, there is still a valid argument that noncitizens should not rely on federal welfare programs, but instead should support themselves through the opportunities for employment that our economy provides.

< Although many of those noncitizens whose eligibility for food stamps would be restored by these proposals are now legal residents of the United States, it is important to remember that their legal status was obtained *after* they had earlier entered the U.S.

illegally. Several Federal laws have granted legal status to hundreds of thousands of illegal aliens who entered the U.S. in violation of our immigration laws prior to 1996. This proposal does not distinguish between granting benefits to noncitizens who entered the United States legally versus those who initially violated our immigration laws and later received de-facto legalization.

< Under current law, States must count the value of any car owned by food stamp recipients above $4,650 for purposes of food stamp eligibility. The administration's proposal would raise the value of vehicles excluded from calculating food stamp eligibilty to whatever limit the state applies to its TANF program. Some states do not impose any limit on the value of a vehicle that a TANF recipient may retain while obtaining TANF welfare benefits.